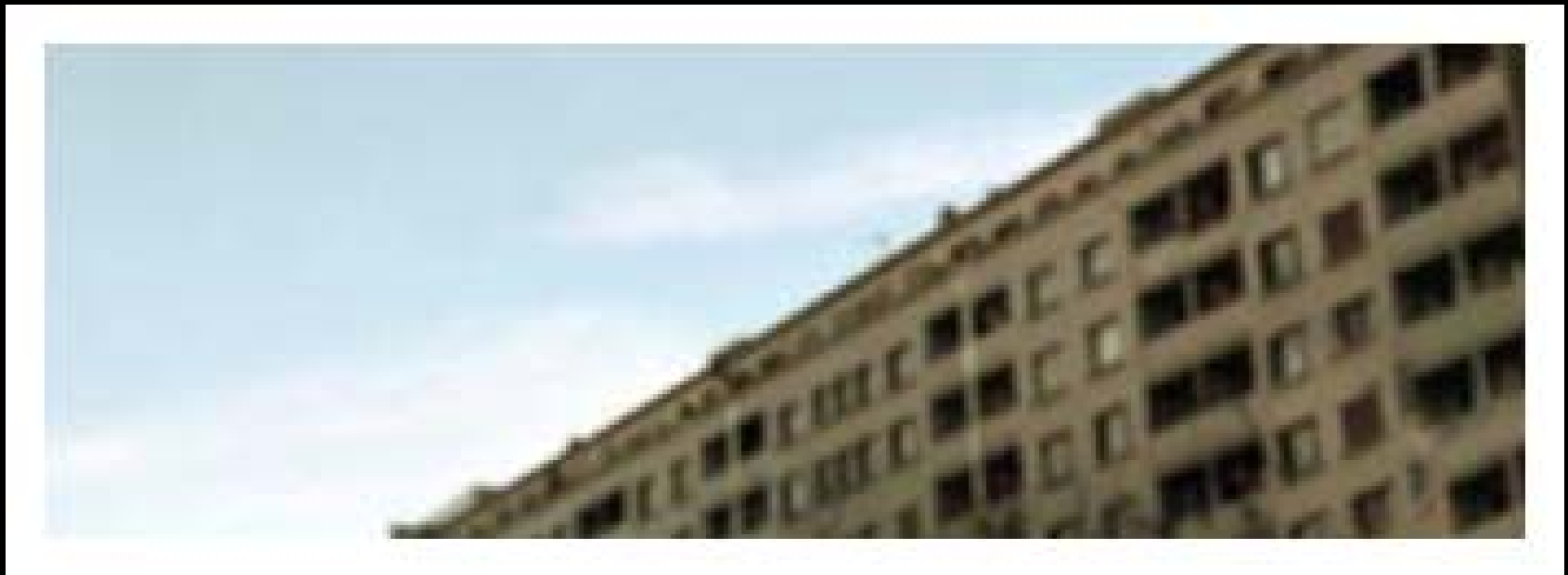


BILD PRESENTS

CONDOMINIUM CONVERSIONS: How to Avoid the Pitfalls



CONDOMINIUM CONVERSIONS: How to Avoid the Pitfalls

Today's panel of professionals:

Tasso Eracles. Simerra Property Management Inc.

- 416 293-5900 - teracles@simerra.com

Sasa Krcmar. Krcmar Surveyors Ltd.

- 905.738.0053 - sasa@krcmar.ca

Anthony Romanelli. Robins Appleby & Taub LLP

- 416-360-3390 - aromanelli@robapp.com

Alex Speigel. ONE Development Corporation

- 416.586.6340 - aspeigel@onefinancial.com

Stuart Wilson. Altus Helyar Cost Consulting

- 416.204.1100 - stuart.wilson@altusgroup.com



TYPES OF CONVERSIONS

1. **Conversions involving a change of use**
 - Most complicated
 - Such as converting a church into residential, or a factory into residential
2. **Conversions which retain same use**
 - Such as converting an apartment to a residential condominium
3. **Conversions involving additions**
 - Conversions involving additions to existing structures, such as new floors or new structures

THE DEVELOPER'S POINT OF VIEW

BENEFITS

1. Social:

- Historical continuity, heritage
- Neighbourhood context, scale

2. Green / Sustainability

- Retain embodied energy
- Minimal demolition: less landfill, less new material
- Infill sites support intensification

THE DEVELOPER'S POINT OF VIEW

BENEFITS

3. Planning

- Existing envelope, height, density, window openings
- Neighbourhood acceptance

4. Marketing

- Appeal of unique building: higher sale value
- Benefit of unique features: ceiling heights, detailing

THE DEVELOPER'S POINT OF VIEW

CHALLENGES

1. Limitations in Design

- Building envelope
- Floor plan
- Parking

2. Additional Cost and Time

- Approvals (HEA)
- Construction

3. Unknown factors

- Environmental
- Surprises



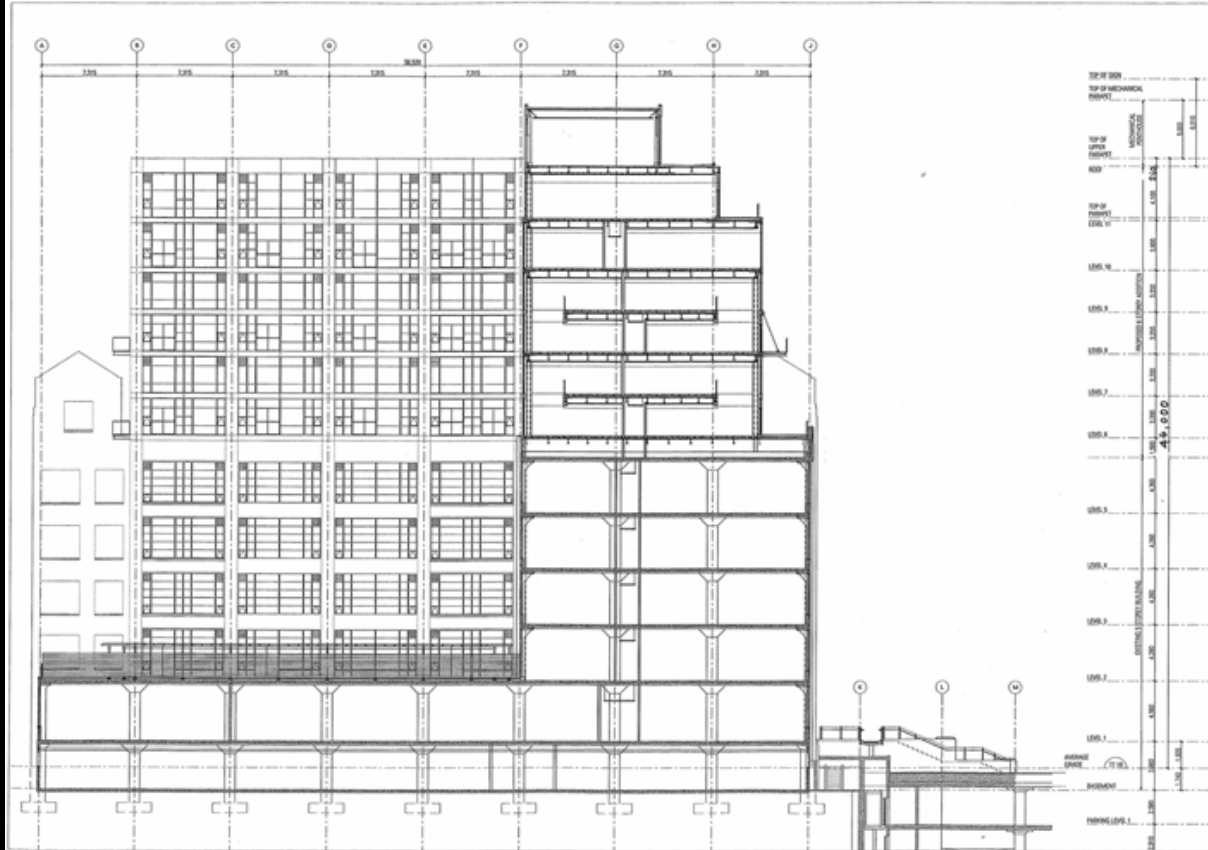












SECTION NORTH - SOUTH
 DWG. NO. 4.01
 SCALE: 1/250
 MAY 02 2003



TIP TOP TAILORS
 517 LACEDRIVE BOULEVARD WEST, TORONTO
 Site Plan Application
 Architects Alliance
 Architects Alliance
 Context Development Inc
 10009 YONGE STREET, TORONTO, ONTARIO, M8B 1W8 Tel: 416.863.8888 Fax: 416.863.8888

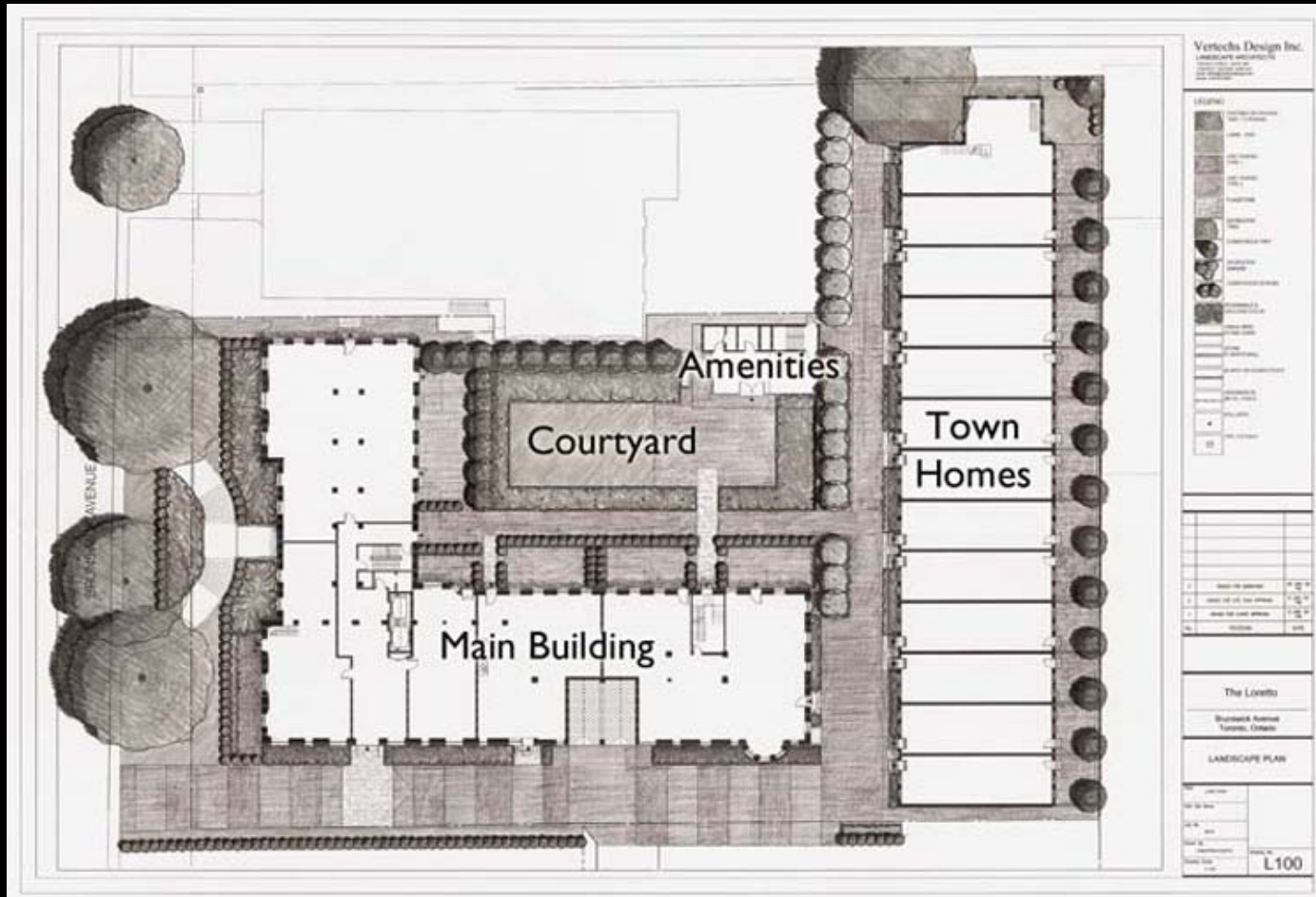






















THE LEGAL ENVIRONMENT

1. *Condominium Act* and Regulations

- Marketing, registration and post-registration of condominium must comply with *Condominium Act*

2. *Land Titles Act* and Regulations

- land may require ‘upgrade’ to ‘Land Titles Absolute’

3. Tarion does not apply

- no Tarion enrollment required, no Tarion Builder Bulletin 19 obligations

THE LEGAL ENVIRONMENT

4. Provincial restrictions on conversion of employment lands to residential

- Provincial Policy Statement (PPS) 2005 protecting Employment/Industrial Lands

“...conversion of employment land only where it is demonstrated that the land is not required for long-term employment purposes and that there is a need for the conversion.”

- *Planning Act* amendments prohibiting OMB appeals

Provisions that remove the right of appeal of a refusal to convert employment areas to non-employment uses came into force January 1, 2007

THE LEGAL ENVIRONMENT

5. City of Toronto restrictions on conversion of employment lands to residential

- **“Long-Term Employment Land Strategy” of the City of Toronto – approved in 2007**

Control the conversion of employment lands to residential

- **S. 2.2.4 of City of Toronto Official Plan**

“In Employment Districts, the needs of businesses will take priority in city-building decisions... The lands and buildings in the Employment Districts are important economic assets for new and expanding businesses.”

THE LEGAL ENVIRONMENT

6. Restrictions on conversion of rental buildings to condominiums

- Restrictions permitted under Section 111 of the *City of Toronto Act, 2006* and Section 99.1 of the *Municipal Act*
- City of Toronto Official Plan s. 3.2.1 (6) and By-law 885-2007 :
 - Permit required to convert rental buildings with 6+ units
 - Conversion not allowed unless certain benchmarks met

THE LEGAL ENVIRONMENT

7. *Residential Tenancies Act*

- Tenant protection provisions may cause delays/costs

8. *Ontario Heritage Act*

- 'Listing' allows the municipality to review development and building applications affecting property
- 'Designation' is performed by way of a specific by-law and gives municipality right to refuse an application that will adversely affect the property's heritage attributes

CONDOMINIUM/SURVEYING

1. **New/Recent Topographic + Boundary Survey**
2. **Architectural/Structural Drawings & As-built Measurements**
 - Unavailable/obsolete
 - Construction/design savings
 - suite areas
3. **Planning Approvals/Issues**
 - Minor variances, site approvals, balconies/terraces, encroachment agreements, servicing agreements
 - Zoning, official plan amendments, parking, garbage, amenities, sprinklers, encroachments, widenings, conservation lands, additional density

CONDOMINIUM/SURVEYING

4. **Draft Plan of Condominium to Planning Authority**
 - Draft Plan, condominium declaration, application, fees, as-built topographic + boundary survey

5. **Record drawings**
 - Architectural + structural drawings

6. **Condominium Registration Requirements**
 - Draft Plan of Condominium condition clearance
 - Substantial completion

7. **Condominium Declaration Schedule G – Completion Certificates**
 - Architect and engineer certification of building completion

CONDOMINIUM/SURVEYING

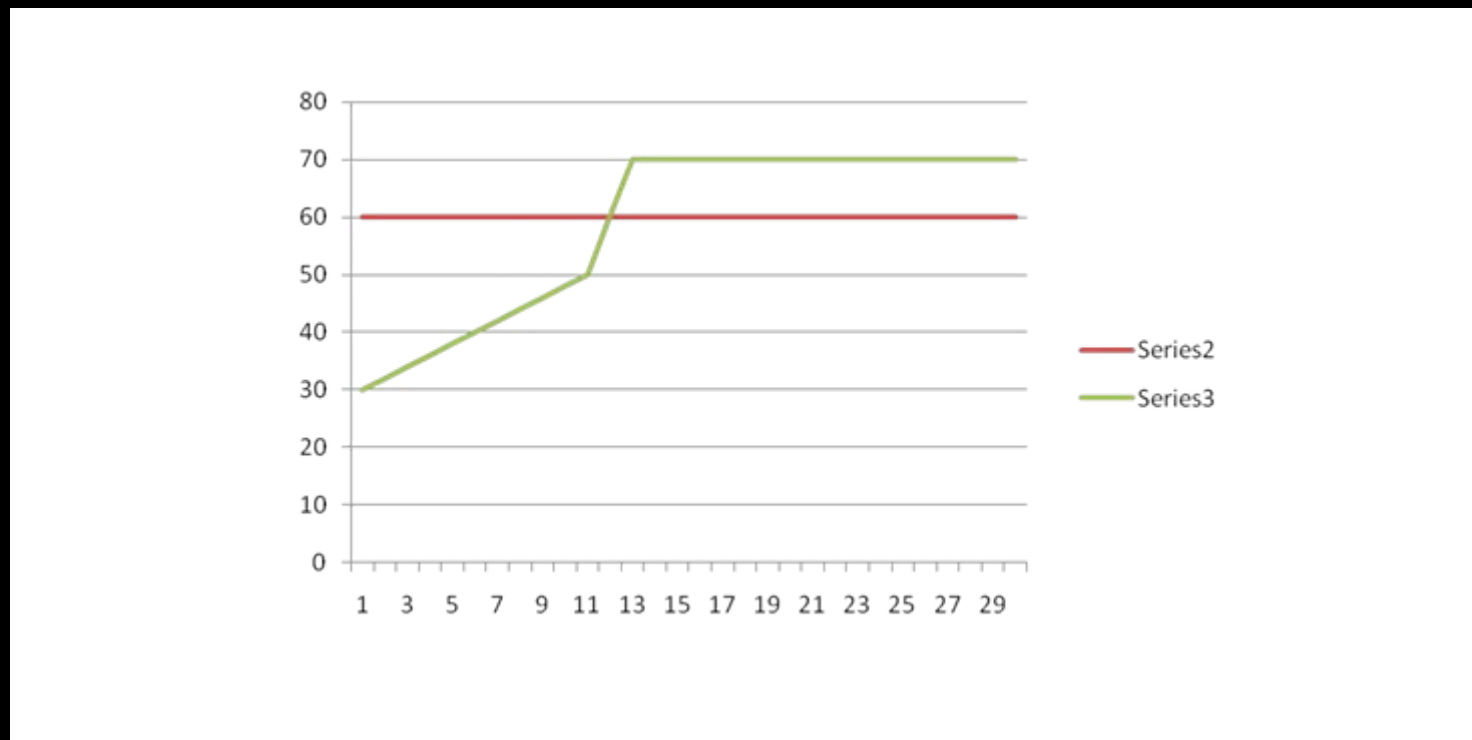
Planning Justification Ideas:

- Very negligible impact on City rental housing stock: Impact of x converted units on existing 000's housing stock
- Affordability/accessibility of housing: Compare current rents to “affordable” rent or mortgage cost; Similar cost for residents to become owners of respective units
- Vacancy rate within very localized area, or actual complex: Explore surrounding vacancy rates for conversion support
- No Displacement of existing tenants (Tenant Protection Act ensuring lifetime security): Existing tenants - purchase their unit + right of first refusal
- Business objective to continue to provide affordable housing to community, either through rental housing or sale of condominiums

PROPERTY MANAGEMENT ISSUES

RESERVE FUND ISSUES

1. Straight line vs. back-end loading



PROPERTY MANAGEMENT ISSUES

RESERVE FUND ISSUES

1. Straight line vs. back-end loading
2. Reduced life expectancy = higher provisions
3. Initial contribution required/expected
4. Disclosure – what's new/what's old
5. Legal precedents
6. Performance Audit/1st year deficit negotiations

PROPERTY MANAGEMENT ISSUES

TIPS

1. Full disclosure, especially what is not going to be renovated/replaced
2. Prepare a reserve fund study prior to going to market and include 30 year funding schedule in the disclosure statement package
3. Prepare the reserve fund study by the declarant board prior to the turn over meeting and include it with the other Section 43 items to the homeowner board
4. Contribute some amount to the reserve fund prior to turn over

THE COST CONSULTANT'S PERSPECTIVE

The Cost Consultant is an essential component of the up-front due diligence process.

Constantly evaluate your risk – Project Monitoring provides the ongoing risk analysis required for higher risk projects such as Condo Conversions

THE COST CONSULTANT'S PERSPECTIVE

Cost Consultant Role in the Condo Conversion:

- **Residual Land Value Calculations**
 - Overpaying for Land is Easily Done
- **Construction Cost Planning**
 - Hard and Soft Costs
 - Financial Planning
 - Revenue and Profitability Analysis
 - Risk Analysis
 - Scheduling

THE COST CONSULTANT'S PERSPECTIVE

Due Diligence - The Key to Successful Cost Planning

Identify the following and get a head start on the cost pitfalls:

- Structural, Mechanical and Electrical issues
- Exterior wall issues (sandblasting, repointing, leaks)
- Abatement issues (usually found during demolition)
- Code issues (fireproofing, separation)
- Existing tenant issues and costs
- “What if” planning - realistic optimism required

Striking the balance between money spent on up-front reporting and spending money on unforeseen items later, is the key to a financially successful project.

THE COST CONSULTANT'S PERSPECTIVE

Typical Experience and Outcomes with Condo Conversions

Done well with the right team, due diligence and risk assessment:

- Highly profitable

Done without adequate due diligence and risk assessment:

- Inadequate budget
- Lack of understanding of risk
- Extended schedule
- Ongoing trade change orders
- Reduced or eliminated profit margin

THE COST CONSULTANT'S PERSPECTIVE

Typical Costs and Contingency?

- How long is a piece of string?
- Unique nature of conversions results in one rule of thumb – there is no rule of thumb.
- Costs can range from \$80/sf to \$250/sf (GLA)
- Typically developers underestimate the contingency that is required.
- Experience shows 15 to 25% contingency is required

QUESTION + ANSWER

